

**Testimony of
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**Before the
Committee on Ways and Means
U.S. House of Representatives**

**Hearing on
The Need for Comprehensive Tax Reform to Help American
Companies Compete in the Global Market and Create Jobs for
American Workers
May 12, 2011**

Good morning Chairman Camp, Ranking Member Levin, and distinguished members of the Committee. Thank you for this opportunity to share my views on the need for comprehensive tax reform.

First, I would like to provide a brief overview of Kimberly-Clark and our global businesses, and then address some of the reasons we believe the current U.S. tax system puts American-based companies at a disadvantage when they compete globally.

For nearly 140 years, Kimberly-Clark has been providing consumers essentials for a better life. With brands like Kleenex, Scott, Huggies, Pull-Ups, Kotex, Poise and Depend, we estimate that one out of every four people around the world use our products each day. We hold the No. 1 or No. 2 brand share positions in more than 80 countries.

Our consumers live in more than 150 countries, and it is critical that we have a global presence to serve them. Being close to our consumers, and the retailers through whom we sell our products, is necessary to effectively develop products which meet our consumers' diverse needs and to enable the effective marketing and efficient distribution of those products. Additionally, due to the nature of many of the products we sell, which are lightweight, bulky, and costly to ship, our manufacturing operations need to be close to our consumers.

To meet the needs of our consumers, we operate more than 100 facilities in 36 countries and have 57,000 employees worldwide. Over 15,000 of those employees are based here in the United States. The rest work in other regions of the world and support our local businesses there.

Most of the products we sell in the U.S. are designed, developed, and manufactured here in the U.S. In fact, a large portion of our annual \$300 million research and development budget is spent in the U.S. We have more than 1,400 employees conducting research in the U.S. Meanwhile, our U.S. manufacturing footprint is significant. We employ 10,000 people at 27 production facilities in 20 different states.

The U.S. market is our largest market but the categories in which we compete are mature. Although we already have a major presence outside the U.S. – almost half of our net sales are to consumers based outside the U.S. – we consider developing and emerging markets to be among our biggest growth opportunities. Profit generated by Kimberly-Clark's overseas affiliates is directly related to foreign business activity.

The U.S. Tax System Puts U.S. Multinationals at a Disadvantage

The U.S. system of taxation puts American companies at a disadvantage when competing in the global marketplace. A high statutory tax rate, the taxation of worldwide earnings, and the complexity of our international tax rules combine to create a high cost and complex tax environment for U.S.-based companies.

High Statutory Tax Rate

The combined Federal and State tax rate in the U.S. averages approximately 39 percent, which significantly exceeds the rates in most other countries. For example, our largest foreign markets include Canada, the United Kingdom, Korea and Australia, which have combined Federal and Local tax rates that range from 24% to 30%. Both Canada and the United Kingdom are expected to reduce their rates further in the near future. The average combined tax rate among the member countries of the Organisation for Economic Co-operation and Development (OECD) is now 25 percent and is expected to continue to decline. Even many developing and emerging countries have lower income tax rates than the U.S. For example, China and Russia

are among our most significant growth markets and their tax rates are 25% and 20%, respectively. In the increasingly aggressive and competitive global market, it is difficult for U.S.-based multinationals to compete effectively with non-U.S. companies who benefit from lower tax rates in their home countries.

The higher tax rates in the U.S. also put American companies at a significant disadvantage when evaluating foreign acquisitions. Expansion through acquisition can be an effective approach for entering a new market segment, a new country, or acquiring technology. Due to lower tax rates, foreign companies can generally afford to pay more to acquire a foreign company and still earn their targeted return.

Taxation of Worldwide Earnings

In addition to its high tax rate, the U.S. taxes the worldwide earnings of U.S. companies, whereas most developed countries do not tax their local companies in a similar manner. Under the current U.S. system, all income of U.S.-based companies is subject to U.S. tax whether it is earned in the U.S. or abroad which creates an incentive for companies to leave their cash outside the U.S. While deferral of tax on the active business earnings of foreign subsidiaries until those earnings are repatriated to the U.S. provides some relief from this burden, the relief is only temporary. Ultimately our goal is to repatriate our surplus foreign income to the U.S. so that it can be reinvested in product development, capital spending or returned to our shareholders. Kimberly-Clark has a strong history of capital investment in the U.S. and of paying dividends to our shareholders. For the last five years, we have averaged over a half a billion dollars of capital spending in the U.S. In addition to supporting jobs at Kimberly-Clark, our investment generates jobs and economic activity at our suppliers and in the surrounding communities. 2011 marks the 77th consecutive year that Kimberly-Clark has paid a dividend and we have increased our dividend per share 39 years in a row. These dividends are an important source of income to our shareholders, which include a significant number of mutual funds, state and local and pension plans and individual investors. Ultimately these dividends lead to further spending and reinvestment in the American economy.

Our current system of taxation results in American companies facing much higher tax rates than most of their foreign-based competitors, which pay little or no home-country tax on income earned abroad. For example, one of our primary global competitors is headquartered in

Sweden. Sweden has a 26 percent tax rate and exempts foreign-source dividends from domestic taxation. When competing in a foreign country, both companies pay the same rates of tax. However, the Swedish headquartered company can repatriate its foreign earnings to Sweden and reinvest those earnings in product development without paying additional tax. In contrast, for Kimberly-Clark, repatriation of those earnings to the U.S. results in an additional layer of tax. This extra layer of tax causes many U.S. multinationals to delay repatriation of foreign earnings and, consequently, creates an artificial barrier to investment in the U.S. Rather than impede the free flow of capital, we need a tax system which facilitates the deployment of capital in a manner that supports the needs of the business.

Ironically, the U.S. system can even result in U.S. companies paying higher tax on the profit earned on products sold to U.S. consumers than do their foreign-based competitors who sell into the U.S. Companies such as Kimberly-Clark, who own their intellectual property in the U.S. and conduct their research, development and manufacturing in the U.S., tend to have a significant percentage of income subject to the higher U.S. tax rates. In contrast, foreign-based competitors, who manufacture outside the U.S. and develop their intellectual property outside the U.S., tend to have a lower percentage of overall profit subject to the higher U.S. tax rates. As a consequence, U.S. companies have less money available to reinvest in their U.S. businesses or to fund dividend payments to their shareholders.

Excessive Complexity

Finally, the U.S. international tax system is highly complex. This complexity requires U.S. companies to devote significant resources to compliance related activities rather than product innovation and market growth. As the world has globalized and U.S. businesses have generated more sales outside the U.S., the U.S. rules for taxing foreign-source income have become increasingly complex and uncertain creating an additional layer of risk and administrative burden for American companies. The U.S. needs a system of international taxation that reduces the cost of administration, reduces the risk of inadvertent error, and is easier to monitor.

America Needs a Tax System Which Promotes Investment in the U.S. and the Creation of American Jobs

America needs a tax system that encourages companies to invest in the U.S. economy to create and retain jobs. A key component of such a system is a permanent research and development credit. Healthy American companies which compete effectively in the global marketplace are good for the American economy. They support innovation, job creation and economic growth in the U.S. Innovation through robust research and development is key to a successful company. At Kimberly-Clark, we spend more than \$300 million annually on research and development and employ over 1,400 people at our U.S. research facilities. In addition to using the technology in our U.S. business, we license intellectual property related to proprietary technology and our well-known brands to our foreign affiliates. Royalties from our foreign affiliates support high quality U.S. jobs in our research and development function.

In addition to providing a permanent research and development credit, the U.S. tax system should encourage the generation of royalty income. A territorial system can result in disparate treatment of dividend and royalty income; dividend income being exempt from U.S. tax and royalty income being fully taxed. The U.S. should follow an emerging trend among those OECD countries seeking to encourage the domestic ownership of intellectual property and provide for a competitive tax rate on royalty income.

Recent proposals to move the U.S. tax system further away from competitive global norms by increasing U.S. tax on foreign earnings would put U.S. companies at a significant disadvantage. Retaining a worldwide system and ending deferral would impose an immediate 35 percent tax on foreign earnings of U.S.-based companies and require the payment of tax even though their U.S. operations may not generate sufficient cash from which to pay the liability. Burdening U.S.-based companies with a significantly higher tax rate than incurred by foreign competitors would significantly reduce the ability of U.S.-based companies to compete globally. This, in turn, would slow economic growth in the U.S. and impede the creation of U.S.-based jobs.

Summary and Conclusion

American companies have a terrific base of talent, an unrivaled track record of innovation, and some of the greatest products and brands in the world. Unfortunately, American companies

face a clear disadvantage as a result of the U.S. tax system. A good first step to improving the competitiveness of the U.S. tax system is to reduce the combined Federal and State tax rate to a level comparable to the combined rates in the rest of the OECD countries. The current combined U.S. tax rate is more than 50 percent higher than the average of the other OECD countries.

The second step is to adopt a territorial system which exempts dividend income from U.S. taxation and taxes royalty income at a reduced rate. The current U.S. worldwide tax system imposes a significant tax on foreign earnings that are brought back to the U.S. for reinvestment here at home, discouraging job-creating domestic investment. By eliminating this extra layer of tax, the disincentive for American companies to reinvest their foreign earnings in the U.S. would be significantly reduced.

To continue to prosper and be relevant for another 140 years, Kimberly-Clark must grow our business at home and around the world. We must listen to the needs and desires of our diverse global consumers, we must continue to innovate and reinvest for future growth. To do all this, we need a tax system that is competitive with global norms; which is less complex and easier to administer, a system which gives us the flexibility to manage our global operations in the most efficient manner, which incentivizes the deployment of capital to the U.S., and which promotes U.S. growth.

Thank you for giving me the opportunity to share my views on tax reform. I would be pleased to take any questions you may have.